How Is the Financial Crisis Affecting Retirement Savings? March 9, 2009, Update

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The stock market lost 56 percent of its value between September 30, 2007, and March 6, 2009, a decline of about $13 trillion. These losses have reduced the retirement savings of older Americans.

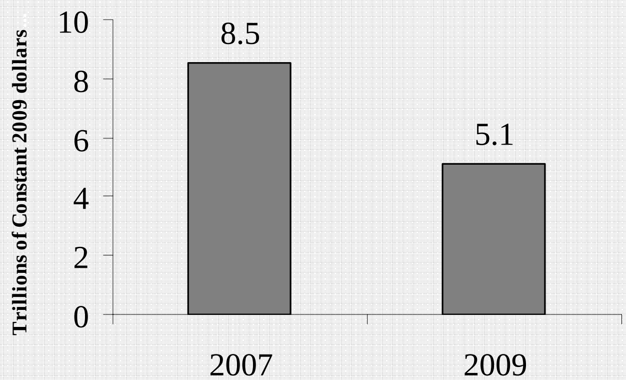
How Much Have Retirement Accounts Fallen?

- Assets in retirement accounts (defined contribution plans and IRAs) reached $8.5 trillion on September 30, 2007 (expressed in constant 2009 dollars). About 70 percent of these assets were invested in stocks. As of March 6, 2009, retirement accounts have lost $3.4 trillion, 40 percent of their value (figure 1).

How Is the Financial Turmoil Affecting Older Americans?

- Older households typically hold less in stocks and are thus less exposed to market fluctuations than their younger counterparts. Nonetheless, equities account for about half of the assets in the typical account of households age 50 and older. Additionally, a loss disrupts retirement plans more for households nearing retirement than for those with many years before retirement, because older households have less time to recover.
- The plummeting value of retirement assets could force older adults to delay retirement and remain at work and could encourage some retirees to return to work. However, contracting credit markets could weaken the labor market, limiting employment opportunities for older adults (Johnson, Soto, and Zedlewski 2008).

Figure 1. *Accumulations in Retirement Accounts, 2007 and 2009*



Source: Author's calculations using the 2008 Flow of Funds Accounts of the United States and the Russell 3000 Index.

Note: Estimates are for September 30, 2007, to March 6, 2009, expressed in constant 2009 dollars.

Reference

Johnson, Richard W., Mauricio Soto, and Sheila R. Zedlewski. 2008. "How Is the Economic Turmoil Affecting Older Americans?" Washington, DC: The Urban Institute.

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